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NORMATIVE LEGITIMACY IN THE COMMERCIALIZATION OF ONLINE COMMUNITY WEBSITE

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Abstract

Many online community websites start their operation by a not-for-profit business model, which attracts a lot of users to engage in. The huge user base and heavy Internet traffic could generate revenue and wealth for the websites. When the online communities are becoming popular, entrepreneurs of the online community website may hope to commercialize the online community. Nevertheless, some of community participants are against the commercialization of the online community website, since they regard that the property of online community is belonged to users rather than website owners. Users may challenge the legitimacy in the commercialization process of online community, and argue that the online community should be owned by the public rather than by a company since the enormous community participants put effort in it and make the website a popular one. This study used two case studies of online communities to explain the normative legitimate issues in the entrepreneurship of online community.

Keywords: Normal legitimacy, Commercialization, Online Community Website

Introduction

Internet is an appropriate place for entrepreneurs to create business to realize their dream of entrepreneurship. A popular website with huge user base and heavy Internet traffic may generate revenue and wealth for entrepreneurs. Online community is one opportunity for Internet entrepreneurs to attract users and bring richness contents for the website.

In 2004, Tim O'Reilly proposed the idea of Web 2.0 [1]. Online communities are examples of Web 2.0 sites which allow users to interact with other users and change and enrich website content. Many Internet entrepreneurs start their business with an online community website which is free for all users. In the beginning, the policy of free-charge makes the website an attractive one for all users.

However, this policy also means that entrepreneurs can not get any incomes from users by collecting membership due. The advertisement

revenues of the website in the beginning are limit due to the small user base. Low cost servers in their garage, school laboratory, or from website hosting providers are the possible solution at this stage, since that few revenue means that entrepreneurs should economize. The whole online community website is, or looks like, a not-for-profit organization in this stage.

Not-for-profit is not the final purpose for entrepreneurs. The increased user base provides the entrepreneurs ways to make revenues. Selling website advertising are intuitive and reasonable way to make money and selling the whole online communities to other portal websites or large Internet companies is another alternative for the entrepreneurs. Entrepreneurs may try to make the online communities a commercial website which can bring income for the entrepreneurs.

Nevertheless, users of the online community website may against the commercialization of the online community website. These users regard the online community as property of the website users rather than entrepreneur. They challenge the legitimacy in the commercialization of online community and argue that the online community should be owned by the public rather than by a company since that the enormous community participants put effort in it and make the website a popular one.

The terms of service may indicate that the online community is owned by the company rather than users, and the company reserves the right to use change their terms of service. Nevertheless, users may still think that the online community is owned by users rather than the company and the company has no right to make money by the online community. Psychological ownership in the field of organization behavior can explain this phenomenon. Psychological ownership describes individuals' feeling of possession without the formal ownership or legal claim of ownership [2].

Legitimacy

Legitimacy is a social generalized perception [3], [4] which the action of an entity is desirable, appropriate within the social system. Legitimacy of ventures is decided by acceptance and compliance

with relevant institutions of social systems in which ventures exist. Few researchers claimed that the importance of legitimacy to new ventures [3], [4]. The effects of legitimacy have been studying in various contexts, linking it to firm survival rates [5], new venture growth [4], organization emergence [6], initial public offering success [7], strategic alliance [8], and product introduction [9]. Zimmerman and Zeitz (2002) [4], argued that legitimacy is an essential resource for acquiring other resources, such as human resources, financial resources, technology, and government support, which are essential for new venture growth. They also pointed that the greater level of legitimacy new venture had, the more resources it could access.

Suchman (1995) [3] integrated with both evaluative and cognitive dimensions among the leading strategic and institutional approaches. He made the commonly cited definition of legitimacy as “a generalized perception or entity assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definition”.

Previous studies proposed several frameworks to classify legitimacy into categories. Aldrich and Fiol (1994) [10] proposed that cognitive legitimacy and sociopolitical legitimacy are two dimensions for success in industry. Cognitive legitimacy means the knowledge about the new activity and what is needed to succeed in an industry. Sociopolitical legitimacy means the value placed on an activity by cultural norms and political authorities. Hunt and Aldrich (1996) [11] and Scott (1995) [12] argued that sociopolitical legitimacy in Aldrich and Fiol (1994) [10]'s framework should be divided into regulatory and normative legitimacy and proposed the framework of three forms of legitimacy: regulative, normative, and cognitive. Regulative legitimacy is derived from regulations, rules, standards created by governments or professional bodies.

Suchman (1995) [3] identified three types of legitimacy: pragmatic, moral, and cognitive. In this classification, pragmatic legitimacy is based on self-interest considers of people who directly exchange with, the moral legitimacy is similar to normative legitimacy and based on normative approval of others.

Normative legitimacy is derived from social norms and values [4] and is granted when one thing is normative approved by people. It is similar to judgement on that a given activity effectively promotes social welfare built by the social value system. It is necessary for successful new venture. For new venture, legitimacy is as important as other resources, such as capital and technology, and plays a key role for the survival of new ventures.

Zimmerman and Zeitz (2002) [4] argued that normative legitimacy can be as a means to access resources which are critical for the venture's survival and growth. When new venture addresses the norms and values held by that control needed resources, it will be help for entrepreneurs to get the resources.

If users regard the online community as property of users rather than the company, the commercialization of the online community website will damage the legitimacy because of the psychology ownership of users for the contents in the online community and the user database. Once users regards it as inappropriate since the non-for-profit organization became profit one, and chose exit to express their resistance for the commercialization of online community, the entrepreneurs may reduce the normative legitimacy of the online community.

Case Studies

This study used two case studies of Wretch (<http://www.wretch.cc/>) and Bahamut (<http://www.gamer.com.tw>) to discuss the normative legitimacy issues in the commercialization process of the online community websites in Taiwan.

Bahamut

Bahamut, founded in November 1996 and commercialized in 2000, is currently the largest online community in Taiwan for all kinds of computer and video games. Bahamut started the website operation in the laboratory of National Central University, Taiwan [13].

Before Bahamut, game players in Taiwan shared their experience in a discussion board of PTT (<http://ptt.cc>), which is a general purpose of nonprofit bulletin board system in Taiwan. Online community plays an important role for game players to share their experiences in playing games.

Game players played different games and preferred to classify their discussions by the games. Put all discussions in one discussion board would make the board full of all kinds of game messages. Finding useful messages was not an easy task for most players. Nevertheless, PPT offered only one discussion board for all games, although game players tried to ask PTT to create more discussion boards for different kinds of video and computer games.

As a game player, JengHong Chen (Sega), the founder of Bahamut, founded an opportunity of virtual communities for computer and video games. To meet the demand of game players, Bahamut provided an environment to host a lot of discussion boards for all kinds of computer and video games.

Each game has its own discussion boards in Bahamut.

As a pioneer of online community for computer and video games, Bahamut quick received a lot of attention from game players. The amount of member of Bahamut reached to fifty thousand in three years.

In October 1999, Bahamut went to commercialization. When Bahamut announced the plan to register as a company, some members criticized this decision. They challenged the legitimacy of commercialization. In the beginning, Bahamut went into market as a substitute for PTT. PTT is a nonprofit discussion board provider. These game players argued that Bahamut was supposed be nonprofit and not use these game discussions to earn a profit for a company.

The argument continued and Bahamut was forced to move the articles posted by members who hold protest position on the commercialization. The argument was ceased after Bahamut agree to move these contents.

In the first two years of commercialization, the Bahamut loss all of its first wave capital, NT\$ 5 million, which was half of the capital provided by angel investor. Most members did not criticize Bahamut since the commercialization did not immediately bring any profit for entrepreneurs of Bahamut and Bahamut left National Central University campus right after commercialization.

The amount of users of Bahamut increased continually. Bahamut was broken even in 2002. The member of Bahamut was excess two million in 2007. Bahamut was the number one online game community and in the top seven website in Taiwan.

In the commercialization process, Bahamut confronted a legitimate critic. Some members challenged the legitimacy for using the contents contributed by the members to earn money. It is no longer a serious legitimate issue since the commercialization did not bring an immediate profit for the entrepreneurs of Bahamut. Besides, Bahamut did not use any university resource after the commercialization of Bahamut. Although Bahamut was forced to move some contents in the commercialization process, the damage was limited. The legitimate issue still existed, but was not too serious.

Wretch

Wretch, found in 1999, commercialized in 2005 and merged into Yahoo Taiwan in May 2007, is currently top one blog and photo album providers in Taiwan with millions of users registered [14].

Wretch started their website operation at one laboratory of Department of Computer Science and Information Engineering of National Chiao Tung University in 1999. The founder and co-founders

were all students, researchers and their adviser of the laboratory. The amount of members increased to 2 million in June 2004. This huge amount of members brought heavy burden for the website servers as well as the university campus network. In November 2004, a serious service interrupt happened and all functions of the Wretch suspended. To promote the hardware and quality of Internet connection, Wretch decided to register as a company in March 2005. To thank the incubation and get permission to spin-off as a new company from the National Chiao Tung University, Wretch donated NT\$ 10 million in 2005 and promised to donate 4% of the profit in the next ten years. According to the rule of National Chiao Tung University, 80% of the donation was distributed as rewards to people who founded the Wretch. In this case, the entrepreneurs received 80% of the donation. In most case, this reward is for the faculty or researchers at the university. However, in this case, the entrepreneur donated the money and received the reward. The only thing was that by this donation, the Wretch got permission to commercialization it as a private company.

Some users of Wretch challenged the commercialization process and argued that why they could use the hardware and Internet in the university campus to run incubate their business. In the late 2005, after the Wretch registered as a company, users uncovered that Wretch still used the Internet resource on the campus of National Chiao Tung University to send their emails. In February 2007, Wretch provided users a program to speed connection to Wretch. Nevertheless, some users detected that this program based on two proxy servers, one in the laboratory of Department of Computer Science and Information Engineering and another one in student dormitory of National Chiao Tung University. Users and the public questioned that Wretch still used university resource to run their business.

In May 2007, Yahoo acquired Wretch in about NT\$ 700 million. At this acquisition, Yahoo donated NT\$ 20 million to National Chiao Tung University to exchange the original promise made by Wretch in 2005 that donating 4% of the profit for the year 2006 to 2015. After the donation, six entrepreneurs of Wretch asked National Chiao Tung University to give 80% of the donation back to them, NT\$ 160 million as rewards to them. Some Wretch users as well as faculty in National Chiao Tung University defied this argument and questioned the legitimacy in the commercialization process of the Wretch.

In the late 2006, when the news media reported the acquisition, many users, including some famous bloggers, decided to move their blogs to other blog service providers. Shortly after the

acquisition, some more angry users move their blogs. Internet traffic of Wretch slipped down until the 3rd quarter of 2007.

Wretch is a typical Web 2.0 website in which the content is provided by the users. Blog and photo album are two major services provided by Wretch. In the beginning, Wretch used computer and Internet resource of the university to run their business. When Wretch provided free of charge service to users, people thought that the usage of university resource was acceptable since the not-for-profit operation model. However, when the web 2.0 website went into commercialization, the website should do something to repair legitimacy and let their users to accept their commercialization. If they do not repair the legitimacy enough, users may decide to move their blogs to other blog service providers. This move will damage the website.

The Wretch did not repair the legitimacy enough when went into commercialization in 2005 and acquired by Yahoo in 2006. The low legitimacy may be an obstacle for the growth of Wretch. As a web 2.0 website, low legitimacy will bring users bad feeling which may induce users to exit their usage. Contents and user base are the most important resources for web 2.0 website. The exit or suspension in usage for users will bring serious impact to web 2.0 website.

In the case of Wretch, people did not hold a strong objection for the commercialization. Nevertheless, people questioned Wretch when they detected that Wretch still used university resource to run their business and knew that most contribution to National Chiao Tung University came back to the entrepreneurs. When Yahoo acquired Wretch, people protested the acquisition since that they ascertained that the entrepreneurs were the only ones who got benefits from Wretch. The original incubation university only got 20% of the donation. The major proportion of donation, 80%, was belonged to the entrepreneurs. Besides, when Wretch was acquired by Yahoo, the NT\$ 700 million was also belonged to entrepreneurs and angel investors. The Wretch users got nothing from the commercialization and acquisition process. They were really contributors of Wretch and they ascertained in mind that they were merchandise sold by Wretch to Yahoo. The lack of legitimacy in the commercialization made the users leave the Wretch.

Discussion

Both Bahamut and Wretch confronted users challenge for normative legitimate issue in the commercializing procedure. The current study used these two cases as examples to explain the normative legitimacy issues which may happen in

the online community entrepreneurship. In the case of Bahamut, some users argued that Bahamut was supposed to be nonprofit and contents provided by users should not serve as a tool for entrepreneurs to earn money. This legitimacy issue made Bahamut lost some members in the commercialization process. Nevertheless, the legitimate issue was no longer serious when users found that the commercialization process did not bring immediately profit for the entrepreneurs of Bahamut.

For the case of commercialization of Wretch, there was also legitimacy consideration. After commercialization, people criticized that Wretch still used university Internet connection to run its business. Using university resource to run business brought a serious legitimate issue. Besides, 80% of the donation by the entrepreneurs to the university came back to the entrepreneurs. This unreasonable arrangement bought another legitimacy issue for Wretch.

Online communities allow users to interact with each others and to enrich website contents. Users and contents provided by the users are the most important property for online communities. Once users challenge the legitimacy of the online communities, they might choose to exit. The exit of users will bring negative effect for the development of the online communities. As an online community, legitimacy is an important issue in the commercialization process.

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